(b) whether Government propose to shift back the head office of Allahabad Bank to Allahabad; if so, by when; and

(c) if not, what are the reasons therefor?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE AND THE MINISTER OF STATE IN THE MINISTRY OF PARLIAMENTARY AFFAIRS (DR. ABRAR AHMED): (a) Yes, Sir.

(b) There is no proposal at present to shift the head office of the bank to Allahabad.

(c) The head office of Allahabad Bank has been functioning satisfactorily at Calcutta since 3-3-1923. Moreover, the bank has 798 branches and 22 administrative offices in Eastern and North-Eastern States. It has, therefore, not been considered desirable to shift its head office from Calcutta to Allahabad.

Refund of Money to Non-Allottees of Equity Shares of RPL

1931. SHRI SHIV PRATAP MISHRA: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that a large number of non-allottees who applied for equity shares of Reliance Polypropelene Ltd. have not been refunded their money;

(b) if so, the number of complaints received by the company/SEBI in this regard; and

(c) what steps are being taken by Government to ensure the refund of money together with the payment of interest to the non-allottees at the earliest?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE AND THE MINISTER OF STATE IN THE MINISTRY OF PARLIAMENTARY AFFAIRS (DR. ABRAR AHMED): (a) to (c) The information is being collected and will be laid on the Table of the House.

Closure of Public Sector Banks

1932. SHRI GHUFRAN AZAM: Will the Minister of FINANCE be pleased to state:

(a) whether a large number of public sector banks are likely to face closure by 1996 as a result of Government's commitment to ADB on financial sector reforms for getting a loan of $ 300 millions,

(b) if so, whether Government have since contemplated any steps to save the banks from closure; and

(c) if so, what are the details thereof?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE AND THE MINISTER OF STATE IN THE MINISTRY OF PARLIAMENTARY AFFAIRS (DR. ABRAR AHMED): (a) No, Sir. No commitment has been made in this regard to the Asian Development Bank.

(b) and (c) Do not arise.

Opinion of Experts about India's Economic Reforms

1933. SHRI KRISHNA KUMAR BIRLA: Will the Minister of FINANCE be pleased to state:

(a) whether Government officially invited a group of eminent economists to study the progress of Indian economic reforms;

(b) if so, what were the terms of reference assigned to the economists for the above study;

(c) what are the principal observations/recommendations made by the eminent economists;

(d) whether the contents of the Report submitted by these economists is at variance with the official assessment; and

(e) whether Government have accepted the recommendations made by these experts?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE AND THE MINISTER OF STATE IN THE MINISTRY OF PARLIAMENTARY AFFAIRS (DR. ABRAR AHMED): (a) and (b) The Finance Minister had invited Professor Jagdish Bhagwati and Professor T. N. Srinivasan, two of India's most outstanding and internationally recognised academicians, to study the ongoing economic reforms and to make recommendations for

future action. The Report was written in an honorary capacity.

(c) A summary of the Report captioned, 'India's Economic Reforms' published in July, 1993 is given in the enclosed statement (*see* below).

(d) and (e) The Report has been published in the interest of public information and debate on the ongoing economic reforms and to contribute to a wider awareness of the urgent issues which would need to be addressed as the reform process proceeds further.

The Government has also made its own assessment of economic reforms in a "Discussion Paper on Economic Reforms—Two Years After and the Task Ahead" published in June 1993 by the Ministry of Finance.

Statement

Summary of the Report captioned "India's Economic Reforms by Professor Jagdish Bhagwati and Professor T. N. Srinivasan.

The Economic reforms initiated by the government in June 1991 have an excellent rationale. The "macroeconomic" situation, both external (the balance of payments) and internal (the fiscal deficit), was unsustainable. The economy's inefficiency had also left us behind in the race for development: our policy frame work needed desperative overhaul. This overhaul would necessitate what economists call "microeconomic" or "structural" reforms. The macroeconomic problems, in tern, had been accentuated by, if not largely been a result of, the microeconomic inefficiencies.

Explaining the rationale for the reforms, and the principles of reform making as now understood by economists from worldwide experience (in Section II), the Report highlights the need for momentum, building on the reforms to date with a number of new steps which would complete the transition to the new policy framework which will promote greater efficiency, growth and therewith a surer and deeper attack on poverty alleviation. Indeed, in the absence of further new steps, the returns from the existing reforms may be meagre in terms of productivity and export increase in particular, encouraging the critics of the reforms to accuse the reformers plausibly about being in error when they argued for their necessity.

The Report proceeds to spell out these steps, which include actions to consolidate the important and bold reforms already undertaken to date and to correct for mistakes revealed by experience, and also to argue for several new measures which would complement and enhance greatly the efficiency of the measures already taken.

In the Macroeconomic area (Section III), two pertinent questions are discussed: (1) have we made the necessary cuts in the fiscal deficit in the best possible way; and (2) since we are borrowing externally, as part of our adjustment and otherwise, are we borrowing "too much"?

(i) The cutting of developmental expenditure appears to us to be a little beyond what appears prudent; growth later may be compromised by this, so the government needs to examine this question carefully. On the other hand, the Finance Minister has been accused of cutting "Social Expenditure", thus stabilising the economy at the expense of budgetary cuts in spending on the poor. This is not a valid criticism, however.

On raising revenue, to reduce the fiscal deficit, we think that the tax base needs to be widened and the tax structure also needs an overhaul. The Chelliah Committee's careful recommendations on reforming our tax system need to be accepted and implemented.

In addition, as privatisation proceeds, the proceeds from equity sales should be set aside to retire the substantial accummulated governmental debt instead of being used to reduce the current budget deficit. This would enable us to reduce quickly the burden of interest payments which afflict the budget, while also putting extra pressure on the government to push ahead with necessary fiscal reforms

Finally, since the banking system is traditionally forced to finance at low cost

nearly half of the government's fiscal deficit, financial reform which includes removal of this practice is an essential ingredient in making fiscal responsibility by the government more likely. So is a measure of independence for the Reserve Bank of India which cannot currently play the inflation restraining role that the independent US Federal Reserve system and the German Bundesbank play. Otherwise, a replay of the 1980s experience with financial excess by the government will remain likely.

(2) On the question of external borrowing, we conclude that we have not borrowed too much. But our calculations suggest that we are close to the margin where *if the returns fall a little, the borrowing* may begin to turn counterproductive. Our calculation therefore suggests the critical role of the reforms. If these reforms are completed *with* the new measures now necessary, then the returns to our investments will indeed rise. But if we hesitate and procrastinate over them, we could wind up having borrowed unwisely.

In the microeconomic area, we consider several sectors and problems. Among them, the following are important:

(1) *Industrial and Trade Licensing*: We recognise the sweeping nature of the reforms to date. But we draw attention to several problem areas where reforms are necessary to cement what happened so far: (i) the bureaucracy remains a problem despite extensive delicensing; (ii) state-level restrictions continue largely in place and need to be removed if delicensing is to amount to much; and (iii) the liberalisation of imports, and hence effective convertibility, still awaits substantial unification and reduction of the tariff rates and, besides, the imports of consumer goods remain very heavily proscribed. In all three areas, we propose specific steps to be taken, to strengthen the effectiveness of the existing reforms.

In addition, as we move towards freer imports, we will also need to make certain other changes, to establish the institutions that go with freer trade and which we did not need when we were inward-looking the protectionist. In particular, we need to set up anti-dumping and market disruption-related machinery to deal with "predatory" trade and with "import surges" respectively.

(2) *Direct Foreign Investment*: We applaud the changes made in our policy regarding direct foreign investment (DFI). But we stress that there is today much competition of DFI around the world and that ambivalence in policy, as in the continuing bureaucratic hurdles, will not help.

Also, in this context, a compromise in regard to the acceptance of intellectual property rules (however "unfair"), as demanded by the United States and in fact by other OECD countries should be treated simply as a (minor) cost of attracting DFI. For, multinationals now treat the acceptance of such rules as an index of the seriousness of a country in attracting DFI.

Also, we suggest that exploring seriously the possibilities of joining one or more of the existing and emerging trade blocs is now a "must" for India. For access to one of these blocs is a powerful incentive for multinationals to come in: this in fact is a main reason why President Salinas has been pushing for NAFTA, the free trade agreement with US and Canada.

(3) *Public Sector Enterprises*: We recommend, in light of the enormous weight of these inefficiently functioning enterprises in the economy, that the options of both increased competition (through free entry by the private sector, domestic and foreign; through appropriate changes in price policy, labour laws etc.; through creation of appropriate institutions such as the National Renewal Fund which will improve the profitability of private enterprises and thus put pressure on the public sector enterprises to improve theirs; and through removal of subsidies so that survival under competition depends only on shaping up) and privatisation become matters on urgent policy.

Equally, we suggest that, except for security-related reasons, public sector enterprises should no longer be started afresh except where the private sector is unable to enter and a social need is clearly established for such investment. Again, the policy of acquiring new "sick units" should be totally abolished.

in short, the lessons of unhappy experience with the public sector enterprises in all sorts of countries and with diverse social and cultural traditions suggest that it is extremely hard to make them function efficiently. So, our early optimism, based on a prior thinking, should yield to pragmatism, we cannot afford otherwise.

(4) Financial Sector Reform: The need financial sector reform can hadrly be eremphasised. It is, part of the new stitutional setup that we must acquire as escape from the old, inefficient policy framework. Scarce funds have to be channelled to the most efficient uses, and financial sector reforms are critical to that task.

The Bombay scam that became a hot potato has affected the pace of financial reform by creating the impression that it was a product of the limited financial reforms undertaken prior to it. But this is simply false. It is important to distinguish financial sector liberalisation and reforms that are desirable from those that represent undesirable deregulation of a sector that is particularly prone to panics, manias and scams everywhere (including in the UK where the prestigious Bank of England fell victim to the BCCI deceptions and in the US where imprudent deregulation created the S&L crisis).

It is important that, even as build up the regulatory machinery so that it can perform adequately in the future (though, in the nature of the case, nothing will rule out scams altogether in this susceptible sector), we must push ahead with the demolition of the old and counterproductive rules. We endorse generally the Narsimhan Committee recommendations and their quicker implementation.

(5) Agriculture: Finally, in regard to the important sector, Agriculture, we make several recommendations.

In regard to foreign trade in agricultural products, we recommend that quantitative restrictions (QRs) and canalisation be abolished, replacing the QRs with tariffs.

Regarding the Public Distribution System (PDS), aimed at protecting the poor, we make several recommendations to improve its targeting of the poor, so that the cost resulting from extensive leakage to the nonpoor is minimised and more benefits reach the poor even if the subsidies are abolished (as they must) on the macroeconomic ground of reducing the fiscal deficit. The schemes we favour (such as Food Stamps) would also involve the abolition of the Food Corporation of India and its attendant costs.

We also recommend the removal soon of the three major subsidies on agricultural inputs; fertilisers, irrigation and electricity. We cite studies that show that the entire set of reforms, implemented in conjunction with the subsidy removal, is still likely to be favourable to agricultural incentives, as seems to be the case in many developing countries.

Finally, regarding agriculture credit, we argue that the policy of subsidising interest rates helps predominantly the nonpoor farmers and should be withdrawn. The problem for the poor farmers instead is access to credit. This requires the establishment of institutions such as the Bank in Bangladesh. All this is part of the set of financial sector reforms awaiting the government's action.

5. Finally, if we are to move to an outward-oriented strategy, seeking to exploit trade and investment opportunities provided by the world economy, then we must take appropriate action to ensure that these opportunities are available to us maximally. Otherwise, we would be operating with one blade of the scissors and ignoring the other.

Towards this end, we recommend that India play a constructive role in making the Uruguay Round successful since the alternative is the strong asserting their might as with the Super 301 and Special 301 actions of the United States against other nations (including us) and the breakdown of the multilateral trade discipline that, despite its weakness, provides something like a rural of law benefitting us.

More important, we recommend that India now actively start exploring the options of joining in the free-trade blocs that are in place (EC and NAFTA) and which might emerge (in Asia). Else, it stands in danger of losing out to other countries, members of such blocks, in trade access and in attracting investment.